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ACTION EUR-12

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SUBJECT: PRELIMINARY ESTIMATE OF ITALY'S "ECONOMIC" BALANCE OF
PAYMENTS

REF: ROME 0428

1. SUMMARY. ON THE BASIS OF PRELIMINARY BALANCE OF PAYMENTS
DATA, EMBASSY ESTIMATES THAT ITALY HAD OVERALL BALANCE OF
PAYMENTS DEFICIT IN 1974 OF \$7,555 MILLION, TRADE DEFICIT
OF ABOUT \$8,150 MILLION AND CURRENT ACCOUNT DEFICIT OF
ABOUT \$7,625 MILLION. ALL FIGURES BELOW ARE IN MILLIONS
OF DOLLARS. END SUMMARY.

2. PRELIMINARY MONETARY MOVEMENTS DATA FOR ALL OF CY 1974
SHOW RECORDED BALANCE OF PAYMENTS DEFICIT OF \$5,435 AND
ADJUSTED BALANCE OF PAYMENTS DEFICIT (TRANSFERRING COMPEN-
SATORY EUROMARKET LOANS FROM CAPITAL ACCOUNT TO FINANCING)
OF \$7,555. EMBASSY HAS MADE ROUGH CALCULATION OF ITALY'S
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"ECONOMIC" BALANCE OF PAYMENTS ON BASIS OF PRELIMINARY DATA,

AS EXPLAINED IN NOTE TO TABLE 1 WHICH FOLLOWS. (NOTE THAT DATA IN THIS CABLE ARE NOT COMPLETELY COMPARABLE WITH ELEVEN-MONTH DATA IN REFTEL, WHICH WAS PRESENTED ON PAYMENTS BASIS EXCEPT FOR TRADE ACCOUNT AND COMMERCIAL CREDITS.) ESTIMATES ARE STILL VERY ROUGH, ESPECIALLY AS REGARDS ADJUSTMENTS BETWEEN PAYMENTS BASIS AND ECONOMIC BASIS, WHICH MAINLY INVOLVE POSITIVE ADJUSTMENTS TO SERVICES ACCOUNT AND NEGATIVE ADJUSTMENTS TO CAPITAL ACCOUNT, IN PART TO CORRECT FOR HIDDEN CAPITAL FLIGHT. ADJUSTMENTS WERE MADE BASED ON COMPARISON OF ACTUAL DATA ON PAYMENTS BASIS AND ON ECONOMIC BASIS FOR FIRST NINE MONTHS OF 1974.

3. ITALY'S BALANCE OF PAYMENTS IN 1974 PROVED TO BE IN VERY LARGE DEFICIT, BUT MUCH SMALLER THAN WAS PREDICTED DURING FIRST HALF OF 1974. IN PART, IMPROVEMENT BETWEEN FIRST AND SECOND HALVES WAS DUE TO REVERSAL OF LEADS AND LAGS ON TRADE ACCOUNT, REDUCTION IN BUILD UP OF IMPORTED INVENTORIES, TIGHT CREDIT, IMPORT DEPOSIT AND BEGINNING OF ECONOMIC DOWNTURN LATE IN 1974. BOTH TRADE ACCOUNT AND CURRENT ACCOUNT SHOWED CONSIDERABLY SMALLER DEFICIT THAN PROJECTED IN ECONOMIC OUTLOOK PUBLISHED BY OECD IN DECEMBER, WHICH FORECAST TRADE DEFICIT OF \$9,200 AND CURRENT ACCOUNT DEFICIT OF \$8,300.

4. TABLE 2 SHOWS BREAKDOWN OF MAIN SOURCES OF FINANCING 1974 DEFICIT. NOTE THAT INCREASE OF NEARLY \$1 BILLION IN OFFICIAL FOREIGN EXCHANGE HOLDINGS WAS MADE POSSIBLE BY RECEIPT LATE IN 1974 OF GERMAN GOLD LOAN AND OF IMF DRAWINGS.

5. TABLE 1 - 1974 "ECONOMIC" BALANCE OF PAYMENTS

EXPORTS (F.O.F.) 29,740
IMPORTS (F.O.B.) 37,890
TRADE BALANCE -8,150
(OF WHICH: OIL) (-7,100)

SERIVCES 460
UNILATERAL TRANSFERS 65
CURRENT ACCOUNT -7,625
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COMMERCIAL CREDIT 720
OTHER CAPITAL -470
CAPITAL ACCOUNT 250
ADJUSTMENTS -180
TOTAL ADJUSTED DEFICIT -7,5551)

1) NOTE: BASED ON (1) PROVISIONAL MONETARY MOVEMENTS DATA FOR TOTAL DEFICIT IN CY 1974; (2) SUMMARY PROVISIONAL

PAYMENTS DATA FOR ELEVEN MONTHS; (3) CUSTOMS DATA FOR
MERCHANDISE TRADE FOR TEN MONTHS (WITH 6 PERCENT C.I.F./
F.O.B. ADJUSTMENT). EUROMARKET COMPENSATORY LOANS HAVE
BEEN TRANSFERRED FROM CAPITAL ACCOUNT TO FINANCING.

6. TABLE 2 - 1974 FINANCING OF DEFICIT

OFFICIAL

GOLD/FX(-MEANS INCREASE) -998

OTHER OFFICIAL 285

IMF STANDBY 857

IMF OIL FACILITY 826

EC CREDIT 1,885

GERMAN GOLD LOAN 2,000

EUROMARKET (NET) 2,120

COMMERCIAL BANKS 580

TOTAL 7,555

VOLPE

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